

Message Text

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ACTION EB-11

INFO OCT-01 EA-11 ADP-00 L-03 COME-00 CIAE-00 INR-10

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----- 121352

P 070346 Z MAY 73

FM AMEMBASSY SEOUL

TO SECSTATE WASHDC PRIORITY 7671

LIMITED OFFICIAL USE SEOUL 2844

FOR LAKAS, EB/ CBA/ OCA

E. O. 11652: N/ A

TAGS: ENGR- ETRD- BEXP, KS

SUBJECT: INCHON THERMAL POWER PLANT UNIT NO 3

1. WE HAVE JUST RECEIVED A COMMERCIAL CABLE FROM
GENERAL ELECTRIC CO. TRANSMITTING THE TEXT OF A CABLE
GE SENT TO KECO RE INCHON THERMAL PLAN UNIT NO 3.
TEXT OF CABLE FOLLOWS: QTE AS DISCUSSED DURING OUR
MEETING WITH KECO DURING THE WEEK OF JAN 29, 1973,
AND CONFIRMED BY MINUTES DATED JAN 31, WE HAVE BEEN
CONDUCTING AN EXTENSIVE REPRICING PROGRAM COVERING
THE EQUIPMENT AND ENGINEERING SERVICES FOR THIS PROJECT
AS WE HAD HOPED TO BE ABLE TO SERVE YOU IN DEVELOPING
A NEW PRICE WHICH WOULD REPRESENT BOTH A RATIONAL AND
NOMINAL INCREASE AS COMPARED TO THOSE PRICES PREVIOUSLY
GIVEN TO YOU FOR THIS STATION. HOWEVER, WE HAVE
ENCOUNTERED A NUMBER OF PRICE INCREASES AND OTHER
PROBLEMS RELATED TO THE EQUIPMENT AND DESIGN
ENGINEERING SERVICES WHICH COMBINE TO PRODUCE
A NEW CONTRACT BASIS WHICH WE FEEL WOULD NOT BE
REASONABLE NOR ACCEPTABLE TO KECO. WE ARE
REGRETFULLY FORCED TO THE CONCLUSION THAT THERE
NO LONGER EXISTS A REASONABLE BASIS FOR THE
CONTINUATION OF NEGOTIATIONS. WE HAVE, THEREFORE
DISCONTINUED OUR EFFORTS AND WE HEREBY RESPECTFULLY
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REQUEST THAT THE FORTHCOMING NEGOTIATION MEETINGS
WITH KECO BE CANCELLED. WE WOULD, HOWEVER,
APPRECIATE THE OPPORTUNITY TO PERSONALLY REVIEW THE
ABOVE WITH YOU AT A MUTUALLY CONVENIENT TIME AND

WILL BE CONTACTING YOU IN CESS OF
SHIFT, I THINK, IN RELATIVE POWER RELATIONSHIPS AND RELATIVE
ECONOMIC RELATIONSHIPS, AND AS THEY AFFECT RELATIVE POLITICAL
RELATIONSHIPS AMONG CONTRIES.

WE DO LIVE IN QUITE A DIFFERENT WORLD, WHEN ONE TAKES THE TIME
TO SIT BACK AND APPRAISE IT, THAT THE WORLD OF 1944-1945 AND
1950 WHEN OUR POST- WAR MONETARY INSTITUTIONS AND OUR POST- WAR
TRADING INSTITUTIONS WERE FIRST ESTABLISHED. TO A TREASURY
UNDER- SECRETARY OF MONETARY AFFAIRS, THE CHANGE IN THE WORLD
ECONOMY CAN BE SUMMED UP VERY SIMPLY IN TWO STATISTICS. I DONT
KNOW WHETHER THIS IMPRESSES OTHER PEOPLE, BUT I ASSURE YOU IT
IMPRESSES SOMEONE SITTING WHERE I AM IN THE TREASURY.

IN 1945 WE HAD, IN THE UNITED STATES, EIGHTY PERCENT OF ALL THE
INTERNATIONAL RESERVES IN THE WORLD. AND WE' VE GOT ANOTHER
FIGURE OF EIGHTY NOW-- OUR NETT LIABILITIES, OUR DOLLAR LIABI-
LITIES AGAINST OUR MEAGER ASSETS ARE 80 BILLION. SO WE' VE
SHIFTED FROM EIGHTY PERCENT OF ALL THE ASSETS TO AN 80 BILLION
NETT LIABILITY POSITION. AND THAT IS SOME REFLECTION OF THE
CHANGE IN FINANCIAL CIRCUMSTANCES IN THE WORLD, AND THE RELATIVE
POSITION OF THE UNITED STATES.

WHEN I BEGIN TALKING ON THIS THEME I ALWAYS RUN INTO SOME
DIFFICULTY. PEOPLE SAY, " OH, YOU MAKE THE UNITED STATES SOUND
LIKE AN ENFEEBLED GIANT, OR AN ENFEEBLED-- NOT EVEN A GIANT."
NOW , I DONT WANT TO BE MISUNDERSTOOD. THE UNITED STATES IS
STILL THE BIGGEST NATION IN ECONOMIC TERMS, IN THE WORLD. I
STILL THINK WE' VE GOT THE STRONGEST ECONOMY, AND ITS A STRONG
COUNTRY.

BUT, IN RELATIVE TERMS, IT CERTAINLY DOES NOT STAND OUT AS IT
ONCE DID. WHATS BEEN GOING ON IN THE POST- WAR PERIOD. YOU HAVE
FIRST THE RECOVERY AND THEN THE GROWTH OF EUROPE, THE INCREASING
INTEGRATION OF EUROPE. WELL, ITS NOT QUITE A UNIT, AS YOU KNOW,
AND THERE ARE KIND OF GROWING PAINS IN TERMS OF THE COMMON MARKET.
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THE COMMON MARKET DOES REPRESENT A POTENTIAL ECONOMIC UNIT OF
ROUGHLY THE SIZE OF THE UNITED STATES, A LITTLE BIGGER IN SOME
RESPECTS, A LITTLE SMALLER IN SOME RESPECTS. BUT THERE YOU ARE
WITH AN ECONOMIC UNIT, AND A POTENTIALLY UNITED AND GETTING MORE
UNITED ECONOMIC UNIT OF THE SAME SIZE AND POWER AS THE UNITED
STATES.

ON THE OTHER SIDE OF THE WORLD, ACROSS THE PACIFIC, YOU HAVE
JAPAN, WHICH OF COURSE IS SMALLER IN TERMS OF POPULATION, BUT
ENORMOUS GROWTH, NOW AN INDEPENDENT, STRONG FORCE IN THE WORLD
ECONOMY, QUITE UNLIKE THE SITUATION TWENTY YEARS AGO. THE WHOLE
PACIFIC BASIN HAS BECOME MORE PROMENENT. YOU THOUGHT OF AN
ATLANTIC WORLD TWENTY YEARS AGO , FOR BETTER OR FOR WORSE. YOU

CANT REALLY THINK OF IT IN THAT SENSE ANY MORE WITHOUT TAKING ACCOUNT, NOT ONLY OF JAPAN, BUT OF THE PACIFIC BASIN.

THE GROWTH IN CANADA, OF COURSE, STRIKES US IN THE UNITED STATES, AND AUSTRALIA-- I DONT HAVE TO TELL YOU ABOUT AUSTRALIA, BUT ITS OBVIOUSLY GROWING, AND A FORCE TO BE TAKEN ACCOUNT OF IN A WAY THAT, RIGHTLY OR WRONGLY, WAS NOT DONE TWENTY YEARS AGO.

THEN FINALLY, YOU HAVE THE DEVELOPING WORLD, STILL WEAK, IN SOME SENSE, ECONOMICALLY-- WE TEND TO THINK OF IT AS WEAK, AND THATS TRUE IN PER CAPITA INCOME TERMS, IN TERMS OF POVERTY . BUT EVEN IN THE DEVELOPING WORLD YOU HAVE STRIKING EXAMPLES OF A NUMBER OF COUNTRIES ENTERING INTO THE WORLD ECONOMY, NOT ONLY WITH RAW MATERIALS AND PRIMARY PRODUCTS, BUT WITH MANUFACTURING GOODS IN SOME CASES, AND INCREASING THEIR EXPORTS IN RECENT YEARS BY TWENTY OR THIRTY PERCENT, YEAR AFTER YEAR. BUT HOWEVER STRONG THEY ARE, AN INCREASINGLY SELF CONFIDENT AND INCREASINGLY VOCAL FORCE IN THE WORLD, THATS NOT GOING TO SIT ASIDE AND LET EVERYTHING BE DECIDED BY THE BIGGER COUNTRIES.

YOU HAVE A WORLD, AND THIS IS THE POINT I WOULD WANT TO LEAVE WITH YOU, OF MUCH MORE EQUALITY IN TERMS OF ECONOMIC POWER AND IN TERMS OF POLITICAL POWER. AND CERTAIN CONCLUSIONS, I THINK, FOLLOW FROM THAT VERY FUNDAMENTAL FACT. YOU KNOW, YOU LOOK AT THE INTERNATIONAL MONETARY SYSTEM AND THE WAY IT WORKED EARLIER IN THE POST- WAR PERIOD , AND NOT LOOKING AT ALL THE FORMALITIES OF THE STRUCTURE, BUT LOOKING AT THE WAY IT REALLY WORKED AND NOT MAKING TOO MUCH OF A CARICATURE OF IT-- IT CONSISTED OF THE UNCLASSIFIED UNCLASSIFIED

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UNITED STATES SITTING THERE, AND NOT DOING TOO MUCH, EXCEPT MAINTAINING A PRESUMED INTERCHANGEABILITY BETWEEN DOLLARS AND GOLD, WHICH BECAME INCREASINGLY TENUOUS. BUT OTHERWISE, A PRETTY PASSIVE POLICY.

AND WHEN OTHER PEOPLE GOT INTO PROUBLE, THEY WOULD, IN EFFECT, CALL UP THE MANAGING DIRECTOR OF THE INTERNATIONAL MONETARY FUND AND SAY, " WE WANT TO DEVALUE", OR IF THEY GOT INTO TROUBLE IN ANY OTHER DIRECTION THEY MIGHT SAY, " WE WANT TO REVALUE, "--- THAT WAS VERY RARE--- IT ALMOST NEVER HAPPENED UNTIL VERY RECENTLY. AUSTRALIA HAS SHOWN THE WAY IN SOME RESPECTS IN MAKING THIS MORE SYMMETRICAL.

BUT THEY WOULD SAY, " YOU KNOW, WE HAVE TO CHANGE", OR " WE HAVE TO CHANGE SOME OTHER POLICIES", AND THE FUND WOULD IN EFFECT SAY, " ALL RIGHT, GO AHEAD," AND THE UNITED STATES WOULD SAY, " ALL RIGHT, GO AHEAD". THERE WASNT MUCH ELSE YOU COULD SAY ABOUT IT. BUT THERE WAS A CERTAIN AMOUNT OF MANOEUVRABILITY, AS WE IN THE UNITED STATES THOUGHT, ANYWAY, ON THE PART OF OTHER COUNTRIES, THAT THE BIG UNIT IN THE MIDDLE, THE BIG PASSIVE UNIT IN THE MIDDLE, DOESN' T HAVE IN THE SAME WAY.

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